COMPANY RESULTS

VSTECS (VST MK)

2Q25: Strong Results; Growth Momentum Expected To Continue In 2H25

VSTECS' 2Q25 earnings came in strong at RM20.2m (+33% yoy, 15% qoq), driven by robust consumer spending, revival of public sector projects, and strong cloud adoption. We expect the public sector project pipeline to remain healthy for the rest of the year. Further impetus could come from increased demand for IT equipment and related software following the completion of several colocation data centres in Malaysia. Maintain BUY with an unchanged target price of RM4.38.

2Q25 RESULTS

Year to 31 Dec (RMm)	2Q25	qoq% chg	yoy % chg	1H25	yoy % chg
Revenue	818.9	18.4	31.1	1,510.5	21.7
Gross Profit	49.7	5.9	32.5	96.6	27.9
EBITDA	24.8	13.8	31.8	46.6	27.1
EBIT	23.8	13.8	32.2	44.6	27.6
PBT	26.8	15.5	32.9	50.0	28.1
Tax expense	(6.6)	21.6	34.7	(12.1)	27.8
PATAMI	20.2	13.6	32.3	37.9	28.2
Core PATAMI	20.2	14.6	32.7	37.8	28.7
Margins (%)		**qoq ppt chg**	**yoy ppt chg**		**yoy ppt chg**
Gross Profit	6.07	(0.72)	0.06	6.39	0.31
EBITDA	3.03	(0.12)	0.01	3.08	0.13
PBT	3.27	(0.08)	0.04	3.31	0.17
Core Net Profit	2.47	(0.08)	0.03	2.50	0.14

Source: VSTECS, UOB Kay Hian

RESULTS

- **Within expectations.** VSTECS' 2Q25 core net profit came in strong at RM20.2m (+33% yoy, +15% qoq) and revenue of RM818.9m (+31% yoy; +18% qoq). This brings 1H25 core net profit to RM37.8m (+29% yoy), accounting for 44% of our full-year estimate. We deem the results to be within expectations as 1H is seasonally weaker for VSTECS (1H accounted for 42-49% of the full year's earnings in the past three years). We expect a stronger 2H25, driven by seasonally stronger consumer and enterprise spending in 2H, alongside potential increased demand for IT equipment and related software, supported by the completion of several colocation data centres in Malaysia.
- **In 1H25, the strong yoy growth in earnings was mainly driven by solid performance across all segments,** including ICT distribution (+18% yoy), enterprise systems (+22% yoy), and ICT services (+35% yoy). This was supported by robust demand in consumer electronics (mid-end iPhone & Pixel smartphones and AI PC), the revival of public sector projects that were largely absent in 2024, and strong adoption of cloud services.

KEY FINANCIALS

Year to 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	2727.2	2901.7	3413.8	3868.3	4339.7
EBITDA	82.7	84.2	104.9	127.2	140.4
Operating profit	79.6	87.6	107.2	129.8	141.7
Net profit (rep./act.)	67.4	70.6	86.2	104.0	113.7
Net profit (adj.)	62.0	70.3	86.2	104.0	113.7
EPS (sen)	17.4	19.7	24.2	29.2	31.9
PE (x)	19.6	17.3	14.1	11.7	10.7
P/B (x)	2.7	2.4	2.2	2.0	1.7
EV/EBITDA (x)	13.3	13.2	10.2	8.3	7.2
Dividend yield (%)	1.9	1.9	2.8	3.0	3.3
Net margin (%)	2.3	2.4	2.5	2.7	2.6
Net debt/(cash) to equity (%)	(25.7)	(21.1)	(26.0)	(26.5)	(28.9)
Interest cover (x)	62.7	226.4	277.0	335.4	366.1
ROE (%)	14.8	14.0	15.6	16.7	16.3

Source: VSTECS, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM3.41
Target Price	RM4.38
Upside	+28.4%

COMPANY DESCRIPTION

VSTECS Berhad is the leading distributor of ICT products to consumers and enterprises in Malaysia. Founded in 1985, the Group distributes a wide range of ICT products to both consumer and enterprise and provides IT services in the form of pre-sales, integration, and post-sales in support of the brands represented.

STOCK DATA

GICS sector	ICT Distributor
Bloomberg ticker:	VSTECS MK
Shares issued (m):	356.6
Market cap (RMm):	1,215.9
Market cap (US$m):	289.1
3-mth avg daily t'over (US$m):	0.2

Price Performance (%)

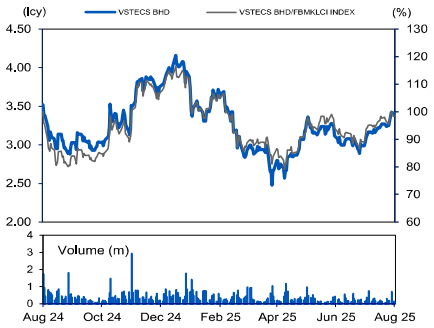
52-week high/low RM4.18/RM2.46

1mth	3mth	6mth	1yr	YTD
14.0	7.2	(5.5)	(2.6)	(15.6)

Major Shareholders	%
VSTECS Holding Ltd	45.6
Lee Marn Fong	12.4
Sengin Sdn Bhd	12.2

FY24 NAV/Share (RM)	1.41
FY24 Net Cash/Share (RM)	0.30

PRICE CHART



Source: Bloomberg

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- **2Q25 sales rose 31% yoy,** supported by strong growth across all three business segments. Core net profit surged with a wider quantum of 33% yoy in tandem with higher sales, underpinned by stronger contributions from the enterprise systems and ICT services segments, which outpaced the lower-margin ICT distribution segment.

STOCK IMPACT

- **Growth to accelerate in 2025.** The company remains confident in its growth trajectory and expects its growth momentum to strengthen further in 2025. Key growth drivers include: a) increased deployment of AI PCs, b) steady adoption of the Google Gemini smartphone and newly launched iPhone model, c) back-loaded public sector orders that were absent in 2024, d) higher demand for data centre equipment such as networking, storage, and servers, e) increased contributions from VMware (to apply on networking, storage and server) under the new agreement, and f) potential new distributorship on new cutting-edge technology.

- **Potential order from colocation DCs for IT equipment.** Unlike hyperscale DCs that procure their IT equipment directly, VSTECS targets the colocation DCs market, which typically secures its IT equipment from VSTECS. IT equipment encompasses networking, storage, and servers. According to C_TEC and the US Chamber of Commerce, approximately 73% of initial DC capex is attributed to IT equipment. Based on our channel checks, the estimated cost of IT equipment per megawatt (MW) is RM40m-50m. With 200MW of colocation DCs currently under construction, this presents a total addressable market (TAM) of around RM10b. It is worth noting that VSTECS holds a market share of 50% in the Enterprise Systems distribution in Malaysia, indicating a significant opportunity in this blue-ocean market segment. Note that the majority of colocation DCs in Malaysia are still in the construction and mechanical and electrical (M&E) phase. VSTECS has already engaged in this phase by providing UPS systems and smart cooling systems. Typically, this phase takes 1-2 years to complete before transitioning to the installation of IT equipment.

EARNINGS REVISION/RISK

- **None**

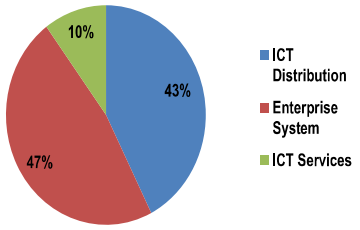
VALUATION/RECOMMENDATION

- **Maintain BUY** with an unchanged target price of RM4.38, based on 15.0x 2026F PE. Given the lack of local listed peers for valuation benchmarking, we use a 0.85x PEG ratio, reflecting a three-year net profit CAGR of 17% from 2024.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

• **Environmental**
- Electricity withdrawal from main grid reduced by 20% yoy in 2023.
- Solar power constituted 41% of total electricity consumed in 2023.
- 26% reduction in paper consumption.
• **Social**
- Maintaining a 50% male-female composition among total employees.
- The group recorded zero work fatalities over the past nine years.
- 100% local employees.
• **Governance**
- Zero confirmed corruption or harassments cases reported.
- Zero fines or penalties from regulatory authorities.

2Q25 REVENUE BREAKDOWN



Source: VSTECS

KEY PRINCIPAL RELATIONSHIPS

Source: VSTECS

DC PRODUCTS AND SOLUTIONS

Source: VSTECS

PROFIT & LOSS

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Net Turnover	2,901.7	3,413.8	3,868.3	4,339.7
EBITDA	84.2	104.9	127.2	140.4
Depreciation & Amortisation	3.4	(2.3)	(2.6)	(1.3)
EBIT	87.6	107.2	129.8	141.7
Net Interest Income/(Expense)	(0.4)	(0.4)	(0.4)	(0.4)
Pre-tax Profit	93.1	113.8	137.3	150.1
Tax	(22.6)	(27.6)	(33.3)	(36.4)
Minorities	0.0	0.0	0.0	0.0
Net Profit	70.6	86.2	104.0	113.7
Net Profit (Adjusted)	70.3	86.2	104.0	113.7

BALANCE SHEET

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Fixed Assets	4.1	2.7	1.1	0.8
Other LT Assets	56.5	57.0	57.0	58.0
Cash/ST Investment	106.4	144.2	165.0	202.0
Other Current Assets	705.3	764.4	872.5	985.7
Total Assets	872.2	968.3	1,095.7	1,246.6
ST Debt	2.0	2.0	2.0	2.0
Other Current Liabilities	357.1	393.3	444.4	509.7
LT Debt	0.1	0.0	0.0	0.0
Other LT Liabilities	1.9	16.1	24.8	34.4
Shareholders' Equity	502.4	554.1	621.7	695.7
Minority Interest	0.0	0.0	0.0	1.0
Total Liabilities & Equity	872.2	968.3	1,095.7	1,246.6

CASH FLOW

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Operating	10.5	72.5	57.4	76.1
Pre-tax Profit	93.1	113.8	137.3	150.1
Tax	20.1	(27.6)	(33.3)	(36.4)
Depreciation & Amortisation	6.3	2.3	2.6	1.3
Working Capital Changes	(62.2)	(23.0)	(57.1)	(47.8)
Other Operating Cashflows	(0.4)	9.3	10.5	10.2
Investing	1.6	(1.0)	(1.0)	(1.0)
Capex (Growth)	1.2	(1.0)	(1.0)	(1.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from Sale of Assets	0.2	0.0	0.0	0.0
Others	0.2	0.0	0.0	0.0
Financing	(56.5)	(33.7)	(35.6)	(38.0)
Dividend Payments	(23.5)	(34.5)	(36.4)	(39.8)
Issue of Shares	(1.9)	0.0	0.0	0.0
Proceeds from Borrowings	(0.4)	(0.4)	(0.4)	(0.4)
Loan Repayment	(0.2)	0.0	0.0	0.0
Others/Interest Paid	2.2	0.8	0.8	1.8
Net Cash Inflow (Outflow)	(44.5)	37.8	20.8	37.1
Beginning Cash & Cash Equivalent	150.9	106.4	144.2	165.0
Changes Due to Forex Impact	0.0	0.0	0.0	0.0
Ending Cash & Cash Equivalent	106.4	144.2	165.0	202.0

KEY METRICS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA Margin	2.9	3.1	3.3	3.2
Pre-tax Margin	3.2	3.3	3.5	3.5
Net Margin	2.4	2.5	2.7	2.6
ROA	8.1	8.9	9.5	9.1
ROE	14.0	15.6	16.7	16.3
Growth				
Turnover	6.4	17.6	13.3	12.2
EBITDA	1.8	24.5	21.3	10.3
Pre-tax Profit	12.5	22.1	20.7	9.4
Net Profit	4.7	22.1	20.7	9.4
Net Profit (Adjusted)	13.3	22.6	20.7	9.4
EPS	13.3	22.6	20.7	9.4
Leverage				
Debt to Total Capital	0.1	0.0	0.0	0.0
Debt to Equity	0.1	0.1	0.1	0.1
Net Debt/(Cash) to Equity	(21.1)	(26.0)	(26.5)	(28.9)
Interest Cover (x)	226.4	277.0	335.4	366.1

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